

**REPORT OF EXAMINATION**  
**FARMERS NEW WORLD LIFE INSURANCE COMPANY**

**Mercer Island, Washington**

**December 31, 1995**



**States Participating**

**Washington**

**CHIEF EXAMINER'S AFFIDAVIT**

I hereby certify that the attached Report of Examination shows the financial condition and affairs of **FARMERS NEW WORLD LIFE INSURANCE COMPANY** of Mercer Island, Washington as of December 31, 1995.

JAMES T. ODIORNE, CPA, JD  
Deputy Insurance Commissioner  
Acting Chief Examiner

10/3/97  
Date

# FARMERS NEW WORLD LIFE INSURANCE COMPANY

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**FARMERS NEW WORLD LIFE INSURANCE COMPANY**

**SALUTATION**

Mercer Island, Washington  
September 25, 1996

The Honorable Brian Atchinson  
Chairman, NAIC Financial Condition (EX-4) Sub-Committee  
Dept. of Professional & Financial Regulation  
Bureau of Insurance, State Office Building  
State House, Station 34  
Augusta, ME 04333

The Honorable James H. Brown  
Southeastern Zone Secretary  
Commissioner, Department of Insurance  
950 North 5th Street  
Baton Rouge, LA 70801-9214

The Honorable Mark Boozell  
Midwestern Zone Secretary  
Director, Department of Insurance  
320 West Washington Street, 4th Floor  
Springfield, IL 62767

The Honorable Deborah Senn  
Commissioner, State of Washington  
PO Box 40255  
Olympia, WA 98504-0255

The Honorable Marianne K. Burke  
Western Zone Secretary  
State of Alaska  
Department of Commerce &  
Economic Development, Division  
of Insurance, PO Box 110805  
Juneau, AK 99811-0805

Dear Commissioners:

In accordance with your instructions and in compliance with the statutory requirements of RCW 48.03.010, an examination has been made of the corporate affairs and financial records of

**FARMERS NEW WORLD LIFE INSURANCE COMPANY**  
of  
Mercer Island, Washington

hereinafter referred to as the "Company" or "FNWL", at its home office located at 3003-77<sup>th</sup> Avenue South East, Mercer Island, Washington 98040-2890.

This report of examination is respectfully submitted showing the condition of the Company as of December 31, 1995.

# FARMERS NEW WORLD LIFE INSURANCE COMPANY

## SCOPE OF EXAMINATION

As required by RCW 48.03.010, this examination covered the five-year period from January 1, 1991, through December 31, 1995. The examination was conducted at the Mercer Island Home Office of the Company by Washington State insurance examiners. It was conducted in accordance with statutory requirements contained in the Washington Insurance Code and the guidelines recommended in the NAIC Financial Condition Examiner's Handbook. The Company's operating procedures and financial records were reviewed as considered necessary to ascertain the financial condition of the Company and conformity with the related laws. These matters are discussed in this report. In addition, the examination included identification and disposition of material transactions and events occurring subsequent to December 31, 1995, that were noted during this examination.

The prior examination covered the period from January 1, 1986, to December 31, 1990, and was conducted by insurance examiners from the states of Arkansas, California and Washington.

## INSTRUCTIONS

Real Estate transactions, executed on behalf of FNWL by the real estate committee of Farmers Group, Inc., are not ratified by the FNWL Board of Directors. (Refer to Page 15, Minutes). **Pursuant to the provisions of RCW 48.13.340, the Company is instructed to have the FNWL Board of Directors ratify these transactions.**

## COMMENTS AND RECOMMENDATIONS

### Service Agreement

There is no written agreement covering the allocation of investment or other overhead expenses from Farmers Group, Inc. (Refer to Page 15, Contracts). **It is recommended that such a written agreement be executed.**

### Global Investment Custodial Agreement

The Global Custodial Agreement dated October 11, 1994, covering foreign investments does not have specific wording regarding, **“obligation to indemnify for loss” or “prompt replacement in the case of loss.”** **It is recommended that similar wording be included in the General Custodial Agreement.**

## FARMERS NEW WORLD LIFE INSURANCE COMPANY

### Life Insurance Policy Reserves

A judgmental sample of the policy reserves of various plans of life insurance was selected to test for compliance with Chapter 48.74 RCW, the Standard Valuation Law. RCW 48.74.030(1) states that the minimum valuation standard is the commissioner's reserve valuation methods (CRVM) defined in RCW 48.74.040 and 48.74.070, and the specified mortality tables and interest rates. RCW 48.74.040(1) provides a formula for the special case that the life insurance policy has a uniform death benefit, requires the payment of uniform premiums, and does not develop negative reserves. The Financial Condition Examiners Handbook, Page 5-7, recognizes the following two principles:

- (1) Life insurance (statutory) reserves are not negative; and**
- (2) At the very least, the company must provide a valuation premium in the first year sufficient to pay expected claims in that year on a conservative standard.**

According to RCW 48.74.040(1), CRVM reserves for policies requiring the payment of varying premiums shall be calculated by a method consistent with the principles underlying the method specified for policies requiring the payment of uniform premiums. For policies providing for future premium determination (*indeterminate premium* plans, characterized in RCW 48.23.075(1)(a), 48.74.080, and 48.76.060), reserves must be appropriate in relation to the benefits and the pattern of premiums, and must be computed by a method consistent with the principles of the Standard Valuation Law.

FNWL currently issues two ten-year term plans, the Level Ten plan and the Farmers Ten Year Term plan, affected by these requirements. FNWL calculates reserves for these plans as the greater of  $1/2 c_x$  (the value of one-half year's death benefits) and a hypothetical mean reserve. The hypothetical mean reserve is based on the maximum premiums FNWL could charge if it were to change the premium rates on all the policies. FNWL's hypothetical calculation produces negative terminal reserves, with "net premiums" insufficient to pay the current year's expected claims on the basis of the statutory standard. FNWL has not taken into account the fact that a mean reserve of  $1/2 c_x$  implicitly defines  $c_x$  as the valuation net premium. In some durations, the maximum premiums FNWL could charge are less than the valuation net premiums, and would result in deficiency reserves being required under RCW 48.74.070, according to the method actually used by FNWL to calculate reserves.

In addition, we are concerned about the "**pattern of premiums**" for these ten-year term plans. The Washington version of the policy forms states that any adjustments in the current premium will be based on expectations of future investment earnings, mortality, persistency, and expenses. Policyholders are led to believe that premiums will be uniform for ten years. In Washington, the premise is that premiums are uniform for ten years, subject to repricing by FNWL. Certainly, FNWL has the right to require uniform premiums for ten years, both in Washington and elsewhere. **Reserves should be calculated using this anticipated premium pattern in accordance with RCW 48.74.040(1).**

## FARMERS NEW WORLD LIFE INSURANCE COMPANY

One particular policy was sampled for plan 0114S3, (Level Ten). The sample policy was in its third policy year at the end of 1995. FNWL calculated the reserve as \$1,186. This is  $1/2 c_x$ . The reserve for this sample policy on the basis of uniform premiums for ten years is \$2,900. On the basis that FNWL would change the premiums to the maximum after five years, the reserve for this sample policy with uniform premiums for *five* years would be \$1,645. Similar results were obtained for other policies sampled.

FNWL reported \$1,082,379,258 of life insurance policy reserves in Exhibit 8, Part A, of its Annual Statement, as of December 31, 1995. FNWL's reserves for the Farmers TenYear Term and the Level Ten plans were \$5,697,697. **Although these two plans do not yet represent a material portion of reserves, we recommend that FNWL increase reserves above the  $1/2 c_x$  basis currently carried.**

FNWL uses an NAIC model regulation to calculate reserves for Farmers Flexible Universal Life. However, where the death benefit is the Principal Sum plus the Accumulation Account, net premiums and reserve factors are based on a level death benefit plan, which is significantly different from the plan guaranteed at issue. **We recommend that the company validate that the difference is not material between the net premiums and reserves based on the increasing death benefit plan and the level death benefit plan.**

Additionally, the actuarial opinion should not include a disclaimer as discussed in this report. (See Actuarial Opinion, page 21).



# FARMERS NEW WORLD LIFE INSURANCE COMPANY

## HISTORY

The Company was incorporated as a Washington stock insurance company on February 21, 1910, as New World Life Insurance Company. The Articles of Incorporation as amended authorize the Company to write general life, general accident insurance, sickness or health insurance business. Policies may include endowments and annuities, insurance against injury, and disability resulting from sickness.

In 1954, Farmers Group, Inc., a Nevada Corporation, acquired a controlling interest in the Company and later changed the name to Farmers New World Life Insurance Company. During 1977 and 1978, Farmers Group, Inc., acquired all of the remaining stock of FNWL.

In 1988, ultimate control of Farmers Group, Inc., was acquired by B.A.T., Industries p.l.c. of London, England.

## MANAGEMENT

### Board of Directors

The Company Bylaws state that the business affairs shall be conducted by a Board of not less than five nor more than eleven Directors. The Directors are to be elected at each annual stockholders' meeting and are to hold office for one year.

Sections 25, 26, and 27 of the Bylaws provide that the officers of the Corporation shall be elected by the Board of Directors. Section 17 provides that there shall be an Executive Committee composed of the President and two or more members of the Board of Directors appointed by a majority of the Board. The President may appoint such other committees as he or she deems necessary.

Directors, officers and members of the committees serving the Company **as of December 31, 1995**, were as follows:

## FARMERS NEW WORLD LIFE INSURANCE COMPANY

### Directors - as of December 31, 1995

<u>Director</u>	<u>Principal Occupation &amp; Business Address</u>
Richard E Bangert	Retired CEO First Interstate Bank of Washington 999 Third Avenue Seattle, WA 98101
Michael P. Bigley	Sr. VP Field Operations Farmers Insurance Group 4680 Wilshire Blvd. Los Angeles, CA 90010
Donald J. Covey	Retired CEO UNICO Properties, Inc. 1215 Fourth Ave., Ste 1010 Seattle, WA 98161
Leo E. Denlea, Jr.	CEO Farmers Group, Inc. 4680 Wilshire Blvd. Los Angeles, CA 90010
Martin D. Feinstein	President, Farmers Group, Inc. 4680 Wilshire Blvd. Los Angeles, CA 90010
Anthony F. Gasich	Vice President, Life Insurance Operations Farmers Insurance Group 4680 Wilshire Blvd. Los Angeles, CA 90010
John F. Sullivan, Jr.	Insurance Executive G. J. Sullivan Co. 1201 Third Ave., Ste. 3390 Seattle, WA 98101

## FARMERS NEW WORLD LIFE INSURANCE COMPANY

Glen W. Vining, Jr.                      President  
Farmers New World Life  
3003 77<sup>th</sup> Ave. S.E.  
Mercer Island, WA 98040

Thomas H. Welch                      Vice President Life Co.  
Coordination  
Farmers Group, Inc.  
4680 Wilshire Blvd.  
Los Angeles, CA 90010

### **Officers as of December 31, 1995**

#### **Name**

Jeffery T. Blackburn  
Kathryn M. Callahan  
Anthony Clark  
M. Douglas Close  
Sharon D. Courlas, MD  
David A. Demmon  
Gerald A. Dulek  
Howard Falk  
Jack Flury  
Anthony F. Gasich  
Laszlo G. Heredy  
Paul F. Hott  
James W. King  
Hubert L. Mountz  
Link R. Murphy, MD  
James I. Randolph  
Maryann Seltzer  
Roger I. Trepanier  
Glen W. Vining, Jr.

#### **Title**

Vice President & Secretary  
Vice President & Actuary  
Vice President  
Vice President & Corporate Counsel  
Medical Director  
Assistant Vice President & Treasurer  
Assistant Vice President  
Vice President & Assistant Treasurer  
Assistant Vice President & Actuary  
Vice President  
Assistant Treasurer  
Assistant Vice President  
Assistant Vice President  
Assistant Treasurer  
Assistant Medical Director  
Vice President & Assistant Secretary  
Assistant Secretary  
Assistant Vice President  
President

## FARMERS NEW WORLD LIFE INSURANCE COMPANY

### Committees as of December 31, 1995

<u>Audit</u>	<u>Executive</u>	<u>Finance</u>	<u>Investment</u>
Richard E. Bangert	Richard E. Bangert	Anthony Clark Chairman	Michael P. Bigley
Leo E. Denlea, Jr. Chairman	Donald J. Covey	Gerald A Dulek	Anthony Clark Chairman
Martin D. Feinstein	Leo E. Denlea, Jr. Chairman	Howard Falk	Leo E. Denlea, Jr.
Anthony F. Gasich	Martin D. Feinstein	Gerald E. Faulwell	L. Donald DeWolfe
Kenneth L. Carroll Alternate	Anthony F. Gasich	Laszlo G. Heredy	Howard Falk
	John F. Sullivan, Jr.	Jason L. Katz	Martin D. Feinstein
	Glen W. Vining, Jr.		Anthony F. Gasich
			James MacKinnon

## **FARMERS NEW WORLD LIFE INSURANCE COMPANY**

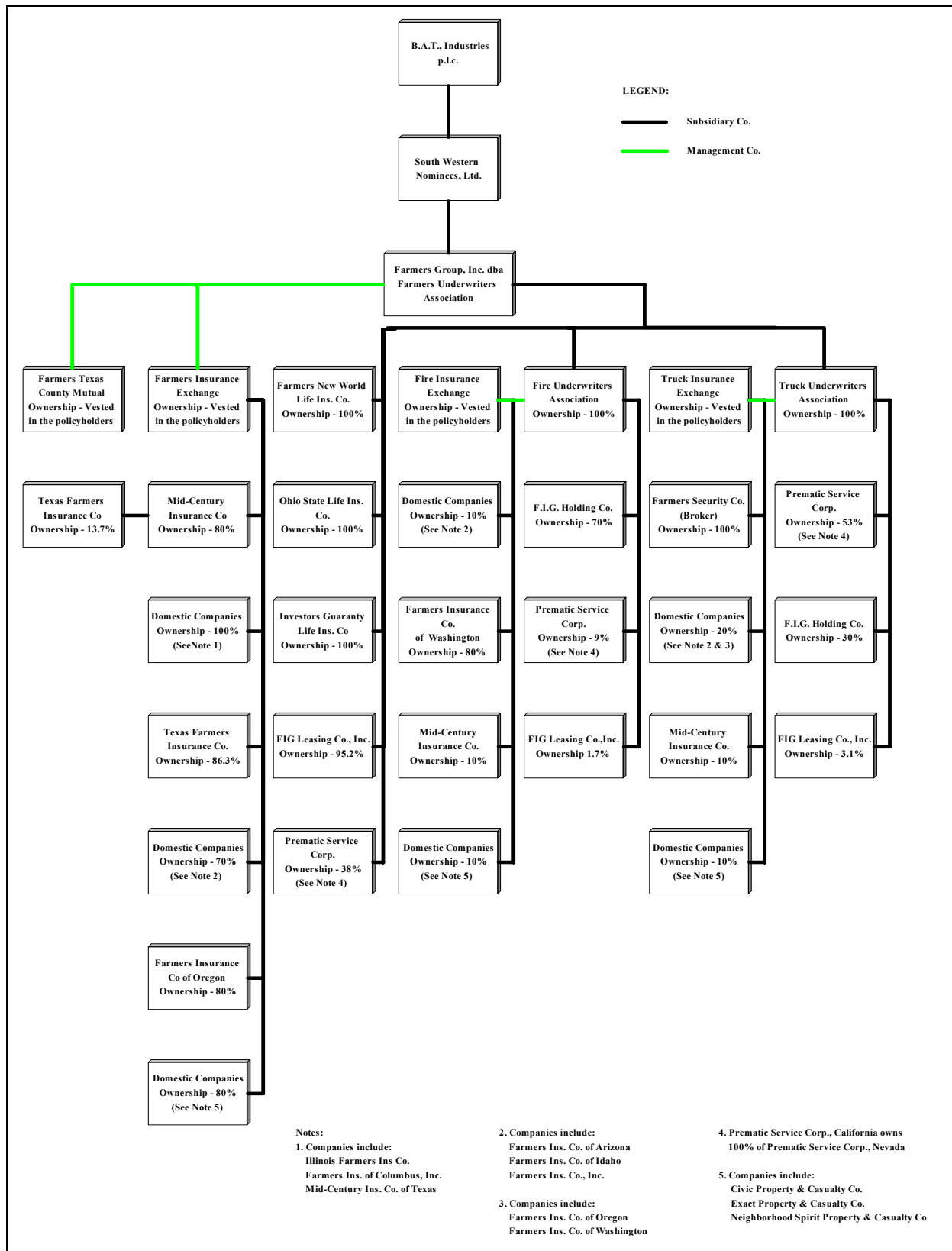
### **AFFILIATED COMPANIES**

FNWL is a wholly owned subsidiary of Farmers Group, Inc., with the ultimate parent being B.A.T., Industries p.l.c. of London, England.

As a member of a holding company system, holding company statements are required to be filed under RCW 48.31B and WAC 284-18-300. Farmers Group, Inc., filed on behalf of FNWL for each of the years under examination.

An Organizational Chart follows on the next page:

# FARMERS NEW WORLD LIFE INSURANCE COMPANY



# FARMERS NEW WORLD LIFE INSURANCE COMPANY

## CORPORATE RECORDS

Minutes of the Board of Directors, Executive Committee, Audit Committee and Stockholders meetings as well as the Investment Summary Reports, as approved, were reviewed for the period covered by the examination. Two amendments were made to the Articles of Incorporation and two changes were made in the Company's Bylaws during the same period. The changes to the Articles of Incorporation dealt with clarifying the ability of the Company to market participating life policies. In addition, the changes dealt with the required number of members on the Board of Directors. The amendments to the Company's Bylaws clarified the tenure of Directors and established the offices of Director Emeritus and Advisory Director.

### Conflicts of Interest

The Company has an established conflict of interest notification procedure for its directors, officers and responsible employees. Each submits a signed conflict of interest statement to the Chair of the Executive Committee on an annual basis. Any circumstance that may involve a conflict of interest is then reported to the Board of Directors. There were no conflicts reported for the period covered by this examination.

### Contracts

As of December 31, 1995, the Company was party to the following contracts:

	<u>Effective Date</u>
Affiliates:	
Marketing & Agency Expense Agreement -- Farmers Insurance Group	January 1, 1995
Income Tax Allocation Agreement	December 31, 1994
Pension Plan Administration Agreement	March 7, 1986
Cost Allocation Agreements -- Ohio State Life and Investors Guaranty Life	July 12, 1995
Non Affiliates:	
Equifax -- Collection Services	March 31, 1992
Chase Manhattan Bank -- Investment Custodial Agreements	October 11, 1994
State Street Bank -- Automated Clearing House Services	August 19, 1988

**The Company allocates indirect costs based on direct cost, however, it has no written agreement covering the allocation of these expenses from Farmers Group, Inc. It is recommended that such an agreement be executed.**

### Minutes

Minutes of the meetings of the Stockholders, Board of Directors and committees of the Board were reviewed for the period under examination. Except for real estate, transactions were approved and supported. **Real estate transactions are approved by the Farmers Insurance Group, Inc., real estate committee on behalf of FNWL and ratified by the Farmers Group,**

## **FARMERS NEW WORLD LIFE INSURANCE COMPANY**

**Inc.'s Board, but not the Company's Board. These transactions should be approved by the FNWL Board pursuant to the provisions of RCW 48.13.340.**

### **Capital Stock Register**

FNWL has 25,000,000 shares of authorized common capital stock of which 6,599,833 shares of \$1 par value are issued and outstanding. All shares are owned by Farmers Group, Inc. There were no stock transactions during the period under examination.

## **INTERNAL SECURITY**

### **Fidelity Bonds**

Farmers Group, Inc., is self-insured for fidelity losses involving employees and officers of all members of Farmers Group Inc., including FNWL.

### **Other Insurance**

The Company and its affiliates, by endorsement to its parent Farmers Group, Inc. policies, are provided protection against property and liability loss. Coverage is provided for loss due to fire, property damage, workers' compensation liability, general liability, automobile liability and director's and officer's liability.

### **Internal Controls**

The firm of Deloitte & Touche, Certified Public Accountants, was retained by the Company to audit its statutory financial statements for the years under examination. As a part of these audits, reports on internal control structure were issued with no material weaknesses noted.

In addition, internal controls were independently tested by the examiners and no material weaknesses were found.

### **Internal Audit Function**

There is an internal audit department that performs various tests to support and supplement the audits of the CPA. Other compliance audits are performed at the direction of management.

### **Physical Security Systems**

The Company has two custodial agreements with Chase Manhattan Bank. Pursuant to these agreements, foreign investments are held under the "Global Custodial" Agreement. This agreement, dated October 11, 1994, does not have protection regarding, **"obligation to indemnify for loss" or "prompt replacement in the case of loss" as recommended by the NAIC. It is recommended that similar wording to that used in the General Custodial Agreement with the same bank be used.**



## **FARMERS NEW WORLD LIFE INSURANCE COMPANY**

### **OFFICERS AND EMPLOYEES WELFARE AND PENSION PLANS**

The Company, as a member of Farmers Group, Inc., provides its employees and their dependents with medical, dental, vision care, and life and AD&D benefits. In addition, under this program, employees have the option of paying their share of the expense of the plans with pre-tax earnings.

As part of Farmers Group, Inc., the Company's employees are eligible to participate in the parent company's pension plan; a long term disability plan and a profit sharing savings plan.

Adequate provisions were made in the financial statements for the Company's obligations under these plans.

### **TERRITORY AND PLAN OF OPERATION**

The Company was licensed to operate in the following states as of December 31, 1995:

Alabama	Arizona	Arkansas	California
Colorado	Georgia	Idaho	Illinois
Indiana	Iowa	Kansas	Kentucky
Michigan	Minnesota	Missouri	Montana
Nebraska	Nevada	New Mexico	North Dakota
Ohio	Oklahoma	Oregon	South Carolina
South Dakota	Tennessee	Texas	Utah
Virginia	Washington	Wisconsin	Wyoming

The Company offers a portfolio of insurance products consisting primarily of traditional whole life, interest sensitive whole life and flexible premium universal life policies. All business is written on a non-participating basis except a small block of Second-to-Die Whole Life. Individual annuity contracts are also available.

The Company operates through the use of the Farmers Insurance Group of Companies agency force. The Company and Farmers Group, Inc., initially entered into an agreement effective January 1, 1959, with an initial term of fifteen years and from year-to-year thereafter. That agreement was terminated as of December 31, 1994. A new contract was entered effective January 1, 1995.

Under the terms of the contract, Farmers Group, Inc., will supervise, direct, and train all members of its agency force under contract with the Company to carry out its sales program. In consideration thereof, Farmers Group, Inc., dba Farmers Underwriters Association is reimbursed for marketing expenses incurred on the Company's behalf. The amounts determined to be payable, shall be paid monthly by the Company to Farmers Group, Inc., as soon after the end of each month as can be reasonably performed. Cost allocation methodologies are reviewed and mutually agreed to by all parties on no less than an annual basis.

Certificates of Authority were examined for the two states in which the Company was admitted to do business since the date of the last examination and found to be in order.

## **FARMERS NEW WORLD LIFE INSURANCE COMPANY**

A review indicated that the Company was current in the payment of premium taxes and filing fees.

### **GROWTH OF COMPANY**

The growth of the company is illustrated below. All information was extracted from the Company's filed annual statements.

(000s Omitted)					Gross Life	Net	Net
<u>Year</u>	<u>Assets</u>	<u>Liabilities</u>	<u>Capital</u>	<u>Surplus</u>	<u>Insurance</u> <u>in Force</u>	<u>Premium</u> <u>Written</u>	<u>Investment</u> <u>Income</u>
1991	\$2,587,304	\$2,023,059	\$6,600	\$557,644	\$52,088,699	\$421,384	\$147,820
1992	\$2,997,389	\$2,355,371	\$6,600	\$635,419	\$58,886,643	\$498,495	\$167,997
1993	\$3,484,747	\$2,782,336	\$6,600	\$695,811	\$69,047,178	\$570,445	\$188,523
1994	\$3,885,507	\$3,133,246	\$6,600	\$745,661	\$77,388,475	\$575,997	\$198,076
1995	\$4,368,069	\$3,506,483	\$6,600	\$854,986	\$85,278,655	\$586,237	\$242,578

### **MARKET CONDUCT**

#### **Advertising**

The Company only advertised using pamphlets. These were made available to the public through its independent agency force. These pamphlets were reviewed and determined to be in compliance with WAC 284-23-010 to -130, Advertising, and WAC 284-23-200 to -270, Solicitation.

#### **Agent Licensing and Appointments**

Selective review of agency files revealed that agents were licensed and appointed appropriately by the Company.

#### **Policy Forms and Underwriting Practices**

Policy forms are first filed and approved in the state of Washington before filing in other states requiring domiciliary state pre-approval. Approval and associated correspondence are routinely maintained and on file. A selection of policies issued during the period under examination were reviewed to verify that only OIC approved policy forms and endorsements were used. In addition, these policies were reviewed to verify that policies were issued in compliance with the rules and rates published in the Company's underwriting manual.

The examiners review disclosed policies are issued in compliance with the underwriting manual and only OIC approved forms are used in the issuance of new business.

## **FARMERS NEW WORLD LIFE INSURANCE COMPANY**

### **Treatment of Policyholders**

Statistical samples of complaints were reviewed to determine if the Company generally treated policyholders fairly and responded promptly to policyholder complaints. In addition, administrative controls were reviewed to determine their effectiveness in handling complaints. Our review found that:

- Complaints were resolved reasonably.
- Response to complaints appeared to be timely.
- Complaint logs appeared to be properly used.
- The Company appears to be in compliance with the requirements of the NAIC model act for complaint recording.

### **REINSURANCE**

The Company cedes and assumes reinsurance on a facultative and automatic basis. Individual ordinary life insurance written in excess of the Company's retention limits is reinsured on an automatic basis. The Company's retention is \$800,000 that is graded down by age and extra ratings. The first level of reinsurance is ceded to the Company's affiliate, Ohio State Life Insurance Company. The minimum amount reinsured is \$25,000 and the maximum is \$500,000 which are graded down by age and ratings. Second level excess coverage is automatically ceded to an authorized life reinsurance company. Policies in excess of the second cession limits (which range from \$0 to \$3,300,000 depending on age and rating) are reinsured on a facultative basis.

Effective August 1, 1977, the Company terminated its writing of individual accident and health coverages. Ceded reinsurance continues on a run-off basis.

The Company participates as a reinsurer under the Service Men's Group Life Insurance program. Reinsurance percentages are calculated for all of the participating companies and are used to determine each company's assumed business. The 1995 reinsurer's percentage for FNWL was 1.46977%.

Reinsurance assumed by the Company is primarily from its affiliate, Ohio State Life Insurance Company. The Company has an automatic reinsurance agreement with Ohio State Life providing the first level of reinsurance for a variety of products. The maximum reinsurance accepted on any one life is \$800,000 and is graded down by age and rating.

## **FARMERS NEW WORLD LIFE INSURANCE COMPANY**

The Company also provides YRT reinsurance for up to 50% of the death benefit (not to exceed \$100,000 per policy) for certain universal life policies issued by Ohio State Life. It has a similar agreement to provide YRT reinsurance for up to 50% of the death benefit (not to exceed \$50,000 per policy) for certain policies issued by its affiliate, Investors Guaranty Life Insurance Company.

A review of all reinsurance agreements and amendments entered into subsequent to the date of the last examination revealed that, **the agreement between Indianapolis Life and the Company did not include an insolvency clause and as such was not in compliance with RCW 48.12.160 (2). In 1996, the agreement was amended and is now in compliance.**

# FARMERS NEW WORLD LIFE INSURANCE COMPANY

## ACCOUNTING RECORDS AND SYSTEMS

### General Accounting

Daily accounting activities of the Company are performed at the Mercer Island home office. Investment transactions, legal services and certain processing activities for mortgage loans, real estate and expenses are completed by the parent company in Los Angeles and submitted periodically to the Company for booking. The Company maintains adequate supporting workpapers that were reviewed by the examiners. The financial and policy records are maintained on Farmers Group, Inc. mainframe; FNWL's Local Area Network and personal computers. The general ledger is maintained on the mainframe using the Insurance Systems of America, Inc., (ISA) Accounting, Budget and Cost (ABC) system. All cash receipts and disbursements are processed using the Continuum Company, Inc., LIFECOMM policy administration system. Investments are maintained on the (ISA) PRISM system.

Workpapers of the Company's internal and independent auditors were utilized where possible in the testing and verification of certain accounts.

### Actuarial Opinion

The Statement of Actuarial Opinion required under RCW 48.74.025, provided by FNWL's Appointed Actuary, was based on an asset adequacy analysis and substantially conforms to the specifications of WAC 284-07-380, except for the disclaimer:

“This opinion, and the supporting memorandum, were prepared solely for, and only to be relied upon by, the company and the insurance departments of the states where the opinion is filed. They are intended to be reviewed and understood as a whole. Their purpose is to provide the above parties with information as to the adequacy of the reserves analyzed pursuant to statute and regulation. No other use is intended or implied. Note that they should not be interpreted as providing a guarantee of reserve adequacy, company solvency, or future company performance.”

The Statement of Actuarial Opinion is part of FNWL's Annual Statement, which is a public document. The Commissioner and the public rely on the Statement of Actuarial Opinion, as to not only the adequacy of reserves, but possibly to the solvency of the company, as affected pursuant to RCW 48.74.050(2) and 48.12.030(3). The prescribed language in WAC 284-07-380 makes it sufficiently clear that the actuary is providing an opinion, and not guaranteeing future economic events. **The disclaimer, which is regarded as a qualification, should not be part of the opinion.**

## **FARMERS NEW WORLD LIFE INSURANCE COMPANY**

### **SUBSEQUENT EVENTS**

The Company paid an extraordinary dividend, in the amount of \$374,916,000 in December of 1996, to its parent, Farmers Group, Inc. No other material events were noted subsequent to the date of this examination. A letter of representation from Company management has been obtained attesting to this fact.

### **COMMENTS ON RECOMMENDATIONS FROM PREVIOUS EXAMINATION:**

The Company has satisfactorily addressed the comments and recommendations contained in the previous Report of Examination.

**FARMERS NEW WORLD LIFE INSURANCE COMPANY**

**FINANCIAL STATEMENTS**

**DECEMBER 31, 1995**

The following pages report the financial condition of the Company. No adjustments were made by the examiners.

**COMPARATIVE BALANCE SHEET**  
**DECEMBER 31, 1995**

<b>ASSETS</b>	<b>1995</b>	<b>1994</b>
Bonds	\$2,553,801,596	\$2,209,643,535
Stocks:		
Preferred Stocks	248,695,744	223,192,103
Common Stocks	253,875,072	227,642,771
Mortgage Loans on Real Estate	114,517,445	129,504,879
Real Estate:		
Properties Occupied by the Company	10,137,402	10,503,757
Properties Acquired in Satisfaction of Debt	33,654,845	38,663,162
Investment Real Estate	7,834,234	12,037,052
Policy Loans	129,466,373	113,357,912
Cash on Hand & on Deposit	2,734,357	10,296,491
Short-Term Investments	131,067,286	96,705,929
Other Invested Assets	11,034,665	10,894,257
Aggregate Write-ins for Invested Assets	308,250	951,500
Subtotals, Cash & Invested Assets	\$3,497,127,269	\$3,083,393,348
Reinsurance Ceded:		
Amounts Recoverable from Reinsurers	206,314	92,319
Commissions & Expense Allowances Due	56,427	44,205
Experience Rating & Other Refunds Due	46,732	7,876
Electronic Data Processing Equipment	260,586	262,697
Federal Income Tax Recoverable		
Life Insurance Premiums & Annuity Considerations Deferred & Uncollected	111,829,872	101,825,966
Accident & Health Premiums Due & Unpaid	1,253	1,667
Investment Income Due & Accrued	41,941,850	38,298,391
Net Adjustment in Assets & Liabilities Due to Foreign Exchange Rates	126,038	
Receivable from Parent, Subsidiaries & Affiliates	2,122,584	2,034,950
Aggregate Write-Ins for Other Than Invested Assets	4,094,543	3,236,020
Total Assets Excluding Separate Accounts Business	\$3,657,813,468	\$3,229,197,439
From Separate Accounts Statement	710,255,120	656,309,222
<b>Total Assets</b>	<b>\$4,368,068,588</b>	<b>\$3,885,506,661</b>
<b>LIABILITIES, SURPLUS &amp; OTHER FUNDS</b>		
Aggregate Reserve for Life Policies & Contracts	\$2,543,355,078	\$2,225,939,413
Aggregate Reserve for Accident & Health Policies	587,545	619,806
Supplementary Contracts Without Life Contingencies	2,706,663	2,809,521
Policy & Contract Claims:		
Life	21,745,036	20,678,627
Accident & Health	55,505	55,263
Premiums & Annuity Considerations Received in Advance	1,436,770	1,471,703
Liability for Premium & Other Deposit Funds:		
Policyholder Premiums	77,329	76,272
Other Contract Deposit Funds	88,438,217	93,583,923
Policy & Contract Liabilities Not Included Elsewhere:		
Provision for Experience Rating Refund	3,847	45,916
Interest Maintenance Reserve	8,869,433	10,780,533
Commissions to Agents Due & Accrued	4,343,868	5,449,173
Commissions & Expenses Allowances on Reinsurance Assumed	2,149,449	827,218
General Expenses Due or Accrued	7,797,164	8,485,798
Federal Income Taxes Due or Accrued	3,591,906	4,300,431
Taxes, Licenses & Fees Due or Accrued	1,806,020	5,841,020
Unearned Investment Income	1,015,565	1,031,200
Amounts Withheld or Retained by Company as Agent or Trustee	1,102,956	895,776
Amounts Held for Agents' Account	6,920,651	6,620,776
Remittances & Items Not Allocated	4,604,308	6,243,967
Net Adjustment in Assets & Liabilities Due to Foreign Exchange Rates		679,864
Asset Valuation Reserve	95,620,801	80,499,660
Aggregate Write-ins for Liabilities		955
Total Liabilities Excluding Separate Accounts Business	\$2,796,228,111	\$2,476,936,815
From Separate Accounts Statement	710,255,120	656,309,222



**COMPARATIVE SUMMARY OF OPERATIONS**  
**YEAR ENDED DECEMBER 31, 1995**

	<b>1995*</b>
Premiums & Annuity Considerations	\$411,290,73
Deposit Type Funds	174,946,625
Considerations for Supplementary Contracts with Life Contingencies	
Considerations for Supplementary Contracts without Life Contingencies	480,088
Net Investment Income	242,578,385
Amortization of Interest Maintenance Reserve	825,622
Commissions & Expense Allowances on Reinsurance Ceded	472,566
Aggregate Write-ins for Miscellaneous Income	80,925
	<b>\$830,674,94</b>
Death Benefits	\$92,055,71
Matured Endowments	747,027
Annuity Benefits	6,010,087
Disability Benefits & Benefits Under Accident & Health Policies	1,372,636
Surrender Benefits & Other Fund Withdrawals	28,945,462
Group Conversions	121,685
Interest on Policy or Contract Funds	74,021,603
Payments on Supplementary Contracts with Life Contingencies	38,387
Payments on Supplementary Contracts without Life Contingencies	454,183
Increase in Aggregate Reserve for Life & Accident & Health & Policy Contracts	317,383,404
Increase in Liability for Premium & Other Deposit Funds	(10,022,543)
Increase in Reserve for Supplementary Contracts without Life Contingencies	(102,858)
Totals	<b>\$511,024,79</b>
Commissions on Premiums & Annuity Considerations	\$81,678,91
Commissions & Expense Allowances on Reinsurance Assumed	2,282,920
General Insurance Expenses	63,340,949
Insurance Taxes, Licenses & Fees, Excluding Federal Income Taxes	12,766,131
Increase in Loading on & Cost of Collection in Excess of Loading on Deferred & Uncollected Premiums	2,817,600
Aggregate Write-ins for Deductions	10,022,543
Totals	<b>\$683,933,85</b>
Net Gain from Operations Before Federal Income Taxes	<b>\$146,741,09</b>
Federal Income Taxes Incurred (Excluding Capital Gains Tax)	57,827,492
Net Gain from Operations Before Capital Gains or (Losses)	<b>\$88,913,59</b>
Net Realized Capital Gains or (Losses) Less CG Tax & Transferred to IMR	16,708,708
<b>Net income</b>	<b>\$105,622,30</b>
<b>RECONCILIATION OF CAPITAL &amp; SURPLUS</b>	
	<b>1995*</b>
Capital & Surplus, December 31, Previous Year	\$752,260,624
Net Income	\$105,622,307
Change in Net Unrealized Capital Gains or (Losses)	18,152,521
Change in Non-Admitted Assets & Related Items	671,046
Change in Reserve on Account of Change in Valuation Basis:	-
Change in Asset Valuation Reserve	(15,121,141)
Net Change in Capital & Surplus for the Year	\$109,324,733
Capital & Surplus, December 31, Current Year	<b>\$861,585,357</b>
	<b>1994</b>
Capital & Surplus, December 31, Previous Year	\$702,410,671
Net Income	\$69,761,788
Change in Net Unrealized Capital Gains or (Losses)	(25,238,017)
Change in Non-Admitted Assets & Related Items	(395,425)
Change in Reserve on Account of Change in Valuation Basis:	-
Change in Asset Valuation Reserve	5,721,607
Net Change in Capital & Surplus for the Year	\$49,849,953
Capital & Surplus, December 31, Current Year	<b>\$752,260,624</b>
	<b>1993</b>
Capital & Surplus, December 31, Previous Year	\$642,018,640
Net Income	\$57,755,229
Change in Net Unrealized Capital Gains or (Losses)	17,614,564
Change in Non-Admitted Assets & Related Items	299,592
Change in Reserve on Account of Change in Valuation Basis:	-
Change in Asset Valuation Reserve	(15,277,354)
Net Change in Capital & Surplus for the Year	\$60,392,031
Capital & Surplus, December 31, Current Year	<b>\$702,410,671</b>
	<b>1992</b>
Capital & Surplus, December 31, Previous Year	\$564,244,24
Net Income	\$66,244,04
Change in Net Unrealized Capital Gains or (Losses)	(4,789,087)
Change in Non-Admitted Assets & Related Items	(779,690)
Change in Reserve on Account of Change in Valuation Basis:	-
Change in Asset Valuation Reserve	17,099,136
Net Change in Capital & Surplus for the Year	\$77,774,39
Capital & Surplus, December 31, Current Year	<b>\$642,018,64</b>

\* As adjusted by examination.

# **FARMERS NEW WORLD LIFE INSURANCE COMPANY**

## **NOTES TO FINANCIAL STATEMENTS**

### **1. Bonds**

Bond values were generally stated at amortized cost using the scientific method. Collateralized Mortgage Obligations (CMO's) and other loan backed bonds were valued at amortized cost using the scientific method with an adjustment for anticipated prepayments at the date of purchase. Any significant change in the estimated cash flows from the original purchase assumptions were accounted for using the retrospective method except for high risk securities that used the prospective method.

The Company's investment in bonds represented (69.8%) of its general account admitted assets. The bond portfolio consisted of the following:

<b><u>Classification</u></b>	<b><u>Statement Value</u></b>	<b><u>Par Value</u></b>	<b><u>Market Value</u></b>
U.S. Government	\$281,443,947	\$267,829,342	\$296,775,437
Foreign Governments	55,900,278	93,006,298	55,900,277
Municipalities	68,966,947	69,125,500	69,593,370
Revenue Bonds	1,114,291,442	1,114,479,329	1,118,512,571
Public Utilities	45,204,868	45,548,257	47,611,342
Industrial & Misc.	927,283,769	914,191,520	936,895,528
Affiliate Bonds	<u>60,710,345</u>	<u>64,400,000</u>	<u>60,710,345</u>
Total	\$2,553,801,596	\$2,568,580,246	\$2,585,998,870

### **2. Preferred Stocks**

Preferred stock values were stated at the lower of amortized cost or market in accordance with the NAIC Valuation of Securities manual and the applicable sections of the Washington Insurance Code.

Preferred stocks represented 6.8% of the Company's general account admitted assets. The preferred stock portfolio consisted of the following:

<b><u>Classification</u></b>	<b><u>Number of Shares</u></b>	<b><u>Book Value</u></b>	<b><u>Statement Value</u></b>	<b><u>Market Value</u></b>	<b><u>Actual Cost</u></b>
Public Utilities	3,308,003	\$225,503,490	\$225,503,489	\$234,166,571	\$225,875,849
Industrial & Misc., U.S.	366,470	17,698,749	17,698,749	17,227,275	17,698,749
Industrial & Misc., Foreign	84,252	5,493,506	5,493,506	7,219,723	5,493,506
Total	<u>3,758,725</u>	<u>\$248,695,745</u>	<u>\$248,695,744</u>	<u>\$258,613,569</u>	<u>\$249,068,104</u>

## **FARMERS NEW WORLD LIFE INSURANCE COMPANY**

### **3. Common Stock**

Common stock values were stated at market in accordance with the NAIC Valuation of Securities Manual and the applicable sections of the Washington Insurance Code.

Common stocks represent 6.9% of the Company's general account admitted assets. The common stock portfolio consisted of the following:

<b><u>Classification</u></b>	<b><u>Number of Shares</u></b>	<b><u>Book Value</u></b>	<b><u>Market Value</u></b>	<b><u>Actual Cost</u></b>
Public Utilities	1,516,300	\$27,188,747	\$26,616,063	\$27,188,747
Banks, Trusts & Insurance	9,812,100	4,216,909	6,015,148	4,216,909
Industrial & Misc.	24,057,371	173,485,048	221,243,862	173,485,049
Total	35,385,771	\$204,890,704	\$253,875,073	\$204,890,705

### **4. Mortgage Loans**

Mortgage Loan values were stated at the aggregate unpaid balance in accordance with NAIC Accounting Practices and Procedures Manual.

### **5. Policy Loans**

Policy Loan values were stated at the aggregate unpaid balance in accordance with the NAIC Accounting Practices and Procedures Manual.

### **6. Short Term Investments**

Short Term Investment values were stated at amortized cost in accordance with the NAIC Accounting Practices and Procedures Manual.

### **7. Separate Accounts**

FNWL is the insurer for the Farmers Group, Inc. Pension plan. In this capacity, the Company maintains the assets of the plan. In addition, FNWL provides administrative services such as payment of benefits. The management of the investment portfolio is performed by the Farmers Group, Inc., Investment Committee. FNWL reports the pension plan financial results through the Separate Accounts Annual Statement.

## **FARMERS NEW WORLD LIFE INSURANCE COMPANY**

### **8. Interest Maintenance Reserve**

The Interest Maintenance Reserve was calculated in accordance with the instructions provided by the Securities Valuation Office of the NAIC. The purpose of the reserve is to stabilize the Company's net income from the effect of net realized capital gains related to interest rate fluctuations since the date of original acquisition.

### **9. Asset Valuation Reserve**

The Asset Valuation Reserve was calculated in accordance with the instructions provided by the Securities Valuation Office of the NAIC. The purpose of the reserve is to stabilize the Company's surplus from the effect of investments whose quality has deteriorated and unrealized losses not eligible for amortization.

**FARMERS NEW WORLD LIFE INSURANCE COMPANY**

**ACKNOWLEDGEMENT**

The cooperation and assistance of the officers and employees of the Company during the examination are hereby acknowledged.

In addition, Leman D. McLean, CFE, CPA, FLMI, Examiner-in-Charge, Larry A. Omdal; Alicia M. Hooper; Steven J. Hornick; Francisco S. Ebreo and Roy C. Olson, FSA, MAAA, Actuary all from the Washington Insurance Commissioner's Office, participated in the examination and the preparation of this report.

**AFFIDAVIT OF EXAMINER IN CHARGE**

STATE OF WASHINGTON)

) ss

COUNTY OF KING )

I, LEMAN D. MCLEAN, being duly sworn, deposes and says that the foregoing report subscribed by him is true to the best of his knowledge and belief.

He attests that the examination of Farmers New World Life Insurance Company was performed in a manner consistent with the standards and procedures required or prescribed by the Washington Insurance Commissioner and the National Association of Insurance Commissioners (NAIC).

LEMAN D. MC LEAN, CFE, CPA, FLMI

Subscribed and sworn to before me on this 2nd day of September, 1997.

Notary Public in and for the  
State of Washington, residing  
at Seattle.  
My commission expires